

**HOUGHTON COUNTY MEDICAL
CARE FACILITY
Financial Statements as of
September 30, 2008 and 2007**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITOR'S REPORT

Department of Human Services Board
Houghton County Medical Care Facility
1100 W. Quincy Street
Hancock, Michigan 49930

We have audited the accompanying financial statements of the business-type activities of Houghton County Medical Care Facility, an enterprise fund of the County of Houghton, Michigan as of and for the years ended September 30, 2008 and 2007, which collectively comprise the Houghton County Medical Care Facility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Houghton County Medical Care Facility's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Houghton County Medical Care Facility, as of September 30, 2008 and 2007, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2009, on our consideration of the Houghton County Medical Care Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 5 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Department of Human Services Board
Houghton County Medical Care Facility

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houghton County Medical Care Facility's basic financial statements. The Schedules listed in the table of contents, as other financial information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman, & Company, P.L.C.
Certified Public Accountants

February 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Houghton County Medical Care Facility's financial performance provides an overview of the Facility's financial activities for the year ended September 30, 2008. Please read it in conjunction with the financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$15,999,455 and \$14,868,686, as of September 30, 2008 and 2007, respectively. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$15,840,189, while revenues from all sources totaled \$16,970,958 resulting in an increase in net assets of \$1,130,769.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's resident base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides and the Facility is reported as an enterprise fund of the County of Houghton, Michigan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Facility as a Whole

Table I provides a summary of the Facility's net assets as of September 30, 2008 and 2007.

Table 1
Net Assets

	2008	2007
Current and other assets	\$11,556,785	\$10,670,951
Capital assets, net	6,349,609	6,196,116
Total Assets	<u>17,906,394</u>	<u>16,867,067</u>
Current liabilities	1,906,939	1,998,381
Total Liabilities	<u>1,906,939</u>	<u>1,998,381</u>
Net Assets:		
Invested in capital assets	6,349,609	6,196,116
Unrestricted	9,649,846	8,672,570
Total Net Assets	<u>\$15,999,455</u>	<u>\$14,868,686</u>

Net assets of the Facility's business-type activities stood at \$15,999,455. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$9,649,846.

The \$9,649,846 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

Table 2
Changes in Net Assets

	2008	2007
Operating revenues:		
Net patient service revenues	\$ 14,093,949	\$ 13,400,532
Other operating revenues	12,046	11,343
Total Operating Revenues	<u>14,105,995</u>	<u>13,411,875</u>
Operating expenses:		
General and administrative	4,639,814	4,090,555
Nursing services	5,686,597	5,432,805
Other expenses	4,405,014	4,130,644
Depreciation	616,187	628,541
Total Operating Expenses	<u>15,347,612</u>	<u>14,282,545</u>
Income (loss) from Operations	(1,241,617)	(870,670)
Non-operating Revenues (Expenses):		
Property taxes and other	1,652,763	1,587,671
Quality Assurance Assessment Program, net of provider tax	1,118,037	927,746
Maintenance of effort	(492,577)	(494,178)
Other	24,163	60,612
Total Non-operating Revenues (Expenses)	<u>2,372,386</u>	<u>2,081,851</u>
Increase (decrease) in net assets	1,130,769	1,211,181
Net assets, beginning	14,868,686	13,657,505
Net Assets, Ending	<u>\$ 15,999,455</u>	<u>\$ 14,868,686</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Facility's total revenues were \$16,970,958. The total cost of all programs and services was \$15,840,189 leaving an increase in net assets of \$1,130,769 as a result of fiscal year 2008 operations. The fiscal year 2008 increase in net assets is primarily due to non-operating gains, specifically property tax revenue increase and proportionate share reimbursement increases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2008, the Facility had \$6,349,609 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	2008	2007
Land and improvements	\$ 13,827	\$ 13,827
Buildings	10,234,710	10,234,710
Equipment and furnishings	2,309,601	2,199,820
Work in progress	784,400	124,501
	<u>13,342,538</u>	<u>12,572,858</u>
Accumulated depreciation	<u>(6,992,929)</u>	<u>(6,376,742)</u>
Totals	<u>\$ 6,349,609</u>	<u>\$ 6,196,116</u>

Capital plans for Fiscal Year 2009 include completion of a sprinkler system project initiated in Fiscal Year 2007. Estimated cost of completion of the project is \$188,000. Other Fiscal Year 2009 projects include Ground Floor Ventilation improvements to the facility with an estimated cost of approximately \$1,292,600.

Debt

The Facility has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Facility's appointed officials consider many factors when setting the fiscal year 2009 budget. One of those factors is the economy. The Facility is heavily dependent on Medicaid revenue. With the current budget constraints faced by the state and national government, the Facility can expect very little in enhanced Medicaid revenue. The fiscal year 2009 Medicaid rate was not finalized when the budget was prepared and is also subject to mid-year adjustments. On the expense side, significant increases in health and liability insurance and utilities will negatively impact operating income.

The Facility will closely monitor developments in the Medicaid rate setting process and adjust the budget accordingly.

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Houghton County Medical Care Facility, 1100 Quincy Avenue, Hancock, Michigan, 49930.

Houghton County Medical Care Facility
Statement of Net Assets
September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,046,457	\$ 5,066,332
Internally designated cash:		
Replacement of capital assets	4,804,632	2,833,684
Workers compensation contingency	<u>387,500</u>	<u>387,500</u>
Total Cash and Cash Equivalents	9,238,589	8,287,516
Resident trust - cash	4,391	4,003
Accounts receivable:		
Private insurance and self-pay	284,611	339,738
Medicare	77,388	162,088
Medicaid	957,957	796,592
Other	28,635	(3,356)
Allowance for doubtful accounts	(108,728)	(118,786)
Other receivables:		
Taxes receivable (net allowance of \$10,000)	-	122,973
Due from State of Michigan	769,300	752,988
Inventory of food and other supplies	125,863	123,625
Prepaid expenses	<u>178,779</u>	<u>203,570</u>
TOTAL CURRENT ASSETS	<u>11,556,785</u>	<u>10,670,951</u>
Non-current Assets:		
Capital assets, net	<u>6,349,609</u>	<u>6,196,116</u>
TOTAL ASSETS	<u>17,906,394</u>	<u>16,867,067</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	403,477	272,863
Due to State of Michigan	-	47,565
Accrued salaries and wages	197,876	146,088
Accrued sick and vacation pay	555,024	532,734
Payroll and withheld taxes	15,029	32,118
Medicaid interim payments	731,142	963,010
Resident trust funds	<u>4,391</u>	<u>4,003</u>
TOTAL LIABILITIES	<u>1,906,939</u>	<u>1,998,381</u>
NET ASSETS		
Invested in capital assets	6,349,609	6,196,116
Unrestricted	<u>9,649,846</u>	<u>8,672,570</u>
TOTAL NET ASSETS	<u>\$ 15,999,455</u>	<u>\$ 14,868,686</u>

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statement of Activities
For the years ended September 30, 2008 and 2007

	2008	2007
OPERATING REVENUES:		
Net patient service revenues	\$ 14,093,949	\$ 13,400,532
Other operating revenues	12,046	11,343
TOTAL OPERATING REVENUES	14,105,995	13,411,875
OPERATING EXPENSES:		
General and administrative	4,639,814	4,090,555
Maintenance	1,149,363	1,087,360
Laundry	311,243	308,715
Housekeeping	521,112	481,475
Dietary	1,380,714	1,272,123
Pharmacy	81,923	116,665
Nursing	5,686,597	5,432,805
Social services	162,709	133,857
Physical therapy	409,999	400,712
Occupational therapy	291,110	270,465
Vehicles	20,589	11,091
Professional services	28,692	30,083
Other expense	11,053	8,399
Provision for bad debt	36,507	9,699
Provision for depreciation	616,187	628,541
TOTAL OPERATING EXPENSES	15,347,612	14,282,545
INCOME (LOSS) FROM OPERATIONS	(1,241,617)	(870,670)
NON-OPERATING REVENUES (EXPENSES):		
Property taxes and other	1,652,763	1,587,671
Private contributions	5,788	5,731
Other	18,375	54,881
Quality Assurance Assessment Program, net of provider tax	1,188,037	927,746
Maintenance of effort	(492,577)	(494,178)
TOTAL NON-OPERATING REVENUES (EXPENSES)	2,372,386	2,081,851
CHANGE IN NET ASSETS	1,130,769	1,211,181
Net assets, beginning of year	14,868,686	13,657,505
NET ASSETS, END OF YEAR	\$ 15,999,455	\$ 14,868,686

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statements of Cash Flows
For the years ended September 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash received from fees and charges for services	\$ 13,905,155	\$ 13,752,976
Other operating revenues	12,046	11,341
Cash payments to employees for services	(7,949,375)	(7,613,819)
Cash payments for payroll taxes and fringe benefits	(3,899,541)	(3,369,282)
Cash payments to suppliers for goods and services	(2,719,918)	(2,691,485)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(651,633)</u>	<u>89,731</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Cash received from property and other taxes	1,652,763	1,587,671
Cash received from Quality Assurance Assessment Program, net of provider tax	1,188,037	927,746
Cash received from contributions and other sources	24,163	29,710
Cash payments for County maintenance of effort	<u>(492,577)</u>	<u>(494,178)</u>
NET CASH PROVIDED (USED) BY NON-CAPITAL AND RELATED FINANCING ACTIVITIES	<u>2,372,386</u>	<u>2,050,949</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash payments for capital assets	(769,680)	(201,487)
Gain (loss) on sale of fixed assets	<u>-</u>	<u>30,902</u>
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(769,680)</u>	<u>(170,585)</u>
Net increase (decrease) in cash and cash equivalents	951,073	1,970,095
Cash and cash equivalents, beginning of year	<u>8,287,516</u>	<u>6,317,421</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,238,589</u>	<u>\$ 8,287,516</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,241,617)	\$ (870,670)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	616,187	628,541
(Increase) decrease in assets:		
Accounts receivable	(63,587)	(175,953)
Taxes receivable (net allowance of \$10,000)	122,973	(122,973)
Due from State	(16,312)	355,556
Inventory	(2,238)	2,679
Prepaid expenses	24,791	(19,164)
Resident trust - cash	-	-
Increase (decrease) in liabilities:		
Accounts payable	130,614	(174,557)
Due to State	(47,565)	47,565
Accrued wages	51,788	37,395
Accrued sick and vacation pay	22,290	62,655
Accrued payroll and withholding taxes	(17,089)	22,844
Medicaid interim payments	(231,868)	295,813
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (651,633)</u>	<u>\$ 89,731</u>

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2008

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Houghton County Medical Care Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

(1) Fund Accounting – Houghton County Medical Care Facility Enterprise Fund is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Houghton County Medical Care Facility Fund is defined under generally accepted terminology as a proprietary enterprise fund and is reported as such in the County of Houghton, Michigan's financial statements. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(2) Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Mission Statement and Nonoperating Revenues and Expenses – The Facility's primary mission is to provide skilled nursing services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

(4) Cash and Cash Equivalents – Cash balances of the Facility are combined with other County funds and invested by the County Treasurer to the extent available in demand and savings accounts, certificates of deposit maturing in less than three months, and other authorized investments. Investments are stated at cost, which approximates market value.

(5) Inventory – Inventory is valued at the lower of cost, (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption.

(6) Land, Buildings, and Equipment – Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Houghton County Medical Care Facility Enterprise Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

(7) Board-Designated Assets – Certain investments of the Unrestricted Fund have been internally designated by the Board of Trustees for the funding of plant replacement, expansion and other

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

specified projects and to pay future claims under the County of Houghton's self-insured worker's compensation plan.

(8) Property Taxes – Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and are payable before March 1 of the subsequent year. The County Facility tax is collected by the various local tax collecting units (townships, cities, etc.) and is recognized as revenue in the year in which payment is due. Taxes receivable are recorded when levied, as the legal right to receive exists.

(9) Gifts, Grants, and Bequests – Unrestricted gifts, grants and bequests are recorded at fair market value at the date of receipt and recognized as non-operating revenues, except where the donor has restricted its use. Restricted donations are credited directly to the appropriate restricted fund balance. Donations restricted for operating purposes are recognized as operating income as expenditures are made for the purpose designated by the donor. Donations restricted for additions to property, plant, and equipment are recognized in the Unrestricted Fund as the funds are expended.

(10) Use of Estimates – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(11) Concentration of Credit Risk – The Facility provides long-term care nursing services to residents of Houghton and Keweenaw Counties. The majority of the Facility's residents are eligible for Medicaid, Medicare, or other insurance. The Facility does, however, grant credit to residents who are ineligible for third-party insurance. The Facility has not experienced any significant losses from uncollectible accounts.

The mix of receivables from patients and third-party payers at September 30, 2008 and 2007 are as follows:

	2008		2007	
Medicare	5.7	%	12.6	%
Medicaid	71.0		61.8	
Other third-party payers	12.8		9.7	
Patients	10.5		15.9	
Total	<u>100.0</u>	<u>%</u>	<u>100.0</u>	<u>%</u>

NOTE B – NET PATIENT SERVICE REVENUES:

Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered.

Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Revenues have been reduced by \$716,368 and \$1,048,402 in 2008 and 2007, respectively, to reflect estimated amounts to be realized from third-party payors.

NOTE C – ACCUMULATED SICK AND VACATION LEAVE BENEFITS:

Employees' accrued sick pay is accumulated for all permanent full-time employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period, including unworked paid holidays, paid vacations, and paid leaves. One-half (1/2) of the accumulated sick leave is paid to separated employees at current rates of pay (1) when an employee retires upon reaching the age of sixty (60) years or, (2) upon death while employed at the Facility, one-half (1/2) of the accumulated sick leave will be paid to the designated beneficiary at the employee's rate of pay at the time of death. Accumulated sick pay as of September 30, 2008 and 2007 amounted to \$269,230 and \$263,905 respectively.

Employees' accrued vacation pay is accumulated for all permanent employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period. Bonus annual leave days are earned and credited to an employee in the first pay period in the month on which the anniversary date falls as follows:

1. An additional three (3) days after five (5) years of employment.
2. An additional two (2) days after ten (10) years of employment.
3. An additional two (2) days after fifteen (15) years of employment.
4. An additional two (2) days after twenty (20) years of employment.
5. An additional two (2) days after twenty-five (25) years of employment.

For employees with dates of hire after September 26, 1998, the following restructure of earned annual time would apply. Full and part-time employees would earn on a pro-rated system that will use all hours paid in a pay period up to a maximum of 80 hours to calculate earned benefits. Bonus annual will be built into the rates as years of service increase.

<u>Years of Employment</u>	<u>Maximum Hours of Annual Leave</u>
Beginning through Year one (1)	40
Beginning Year two (2) through Year five (5)	80
Beginning Year six (6) through Year ten (10)	128
Beginning Year eleven (11) through Year fifteen (15)	144
Beginning Year sixteen (16) through Year twenty (20)	160
Beginning Year twenty-one (21) through Year twenty-five (25)	176
Beginning Year twenty-six (26) and thereafter	192

Annual leave may be accumulated to thirty (30) days and shall be paid at current rates to separated employees. The accumulated vacation pay as of September 30, 2008 and 2007 amounted to \$285,794 and \$268,829 respectively.

NOTE D – RETIREMENT PLAN:

Plan Description--The Facility has in effect a defined benefit non-contributory retirement plan with Met Life Insurance Company covering substantially all full-time employees. The total retirement expense for the year ended September 30, 2008 and 2007 was \$1,333,416 and \$924,076 respectively, and includes amortization of past service costs, which are being amortized over a one year period for 2008 and a ten year period for 2007. The Facility makes annual contributions to the

NOTE D – RETIREMENT PLAN (Continued):

plan as determined by consulting actuaries. The payroll for participating employees for the year ended September 30, 2008 was \$6,661,696, while total payroll expense was \$8,001,164. At January 1, 2008, the date of the most recent actuarial valuation, membership consisted of 128 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 227 current active employees.

Contributions—The Facility's funding policy provides for annual employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost--For the year ended September 30, 2008, the Local Governmental Unit's annual pension cost of \$1,333,416 for the plan was equal to the Local Governmental Unit's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at January 1, 2008. Actuarial assumptions used to compute the PBO are as follows:

- A. Actuarial Cost Methods – Retirement benefits, vesting, and pre-retirement survivor benefits calculated using the frozen initial liability cost method, with the initial employer liability equal to the January 1, 1974 and amended on March 28, 2005, unfunded employer past service liability based on the entry age normal method. If, in any year, the normal operation of this funding method would produce an unfunded frozen initial liability which is negative, it shall be deemed to be zero.
- B. Valuation Assumptions:
 - 1. Interest – 6.5%
 - 2. Expenses and contingencies – 40%
 - 3. Retirement age – The greater of normal retirement age specified in the plan or attained age.
 - 4. Normal form of retirement annuity – single life annuity.
 - 5. Mortality – 1983 Group Annuity Table (male and female tables).
 - 6. Turnover – Allowance is made for turnover among eligible employees.
 - 7. Projected salary increases – increases of 4.0% per year are assumed.
 - 8. Pre-retirement survivor benefit – All participants are assumed to be married to an eligible spouse. Male spouses are assumed to be three years older than their female spouses.
 - 9. Cost of Living – IRC Section 415 limits on salary and benefits are assumed to increase 3.0% per annum.
- C. Asset Value:

Experience Rating Accumulation – The asset value equals the balance as of the valuation date in the fixed account, which is available to provide benefit payments and expenses. Contributions received after the valuation date but within the allowable grace period that were intended for plan years ending prior to the valuation date are included in this asset value.

NOTE D – RETIREMENT PLAN (Continued):

Annual Pension Cost and Net Pension Obligation as of January 1, 2008	
Annual required contribution, beginning January 1, 2007	\$ 964,031
Interest on net pension obligation as of January 1, 2007	-
Adjustment to annual required contribution beginning January 1, 2007	-
Annual pension cost, beginning January 1, 2007	<u>964,031</u>
Contributions made, beginning January 1, 2007	<u>964,031</u>
Increase (decrease) in net pension obligation as of January 1, 2008	-
Net pension obligation as of January 1, 2007	-
Net Pension Obligation as of January 1, 2008	<u><u>\$ -</u></u>

Three year-trend information as of September 30th are as follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual Pension Cost	\$753,491	\$804,211	\$964,031
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$-	\$-	\$-
Actuarial Value Assets	\$14,024,905	\$15,089,316	\$16,312,113
Actuarial Accrued Liability	\$15,391,955	\$15,954,864	\$18,197,991
Unfunded AAL	\$1,367,050	\$865,548	\$1,885,878
Funded Ratio	91.12%	94.58%	89.64%
Covered Payroll	\$6,585,290	\$6,732,337	\$6,661,696
UAAL as a Percentage of Covered Payroll	20.76%	12.86%	28.31%

NOTE E – PURCHASE AND REPLACEMENT OF ASSETS:

The Facility has customarily funded depreciation by internally segregating cash and a portion of fund balance equal to the annual depreciation of the assets. The funded depreciation is used to provide for future asset purchases and replacement. An analysis of the activity in the internally designated fund balance-purchase and replacement of assets account is as follows:

	<u>2008</u>	<u>2007</u>
Balance, October 1	\$ 2,833,684	\$ 2,375,729
Funding Provision	2,080,729	506,040
Asset and replacement purchases	<u>(109,781)</u>	<u>(48,085)</u>
Balance, September 30	<u><u>\$ 4,804,632</u></u>	<u><u>\$ 2,833,684</u></u>

NOTE F – CAPITAL ASSETS:

Capital assets relating to the Medical Care Facility (Enterprise Fund) are recorded at cost and accounted for in this fund. Depreciation on such capital assets is charged as an expense against operations of the fund on a straight-line basis. For the years ended September 30, 2008 and 2007 depreciation expense of \$616,187 and \$628,542, respectively, has been included in the operating expenses of the Facility.

Capital asset activity of the Facility's enterprise activities are as follows:

	Balance 10/1/07	Additions	Deductions	Balance 9/30/08
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	124,501	659,899	-	784,400
Subtotal	124,501	659,899	-	784,400
Capital assets being depreciated:				
Land improvements	13,827	-	-	13,827
Buildings	10,234,710	-	-	10,234,710
Fixed equipment	704,144	47,496	-	751,640
Major movable equipment	1,495,676	62,285	-	1,557,961
Subtotal	12,448,357	109,781	-	12,558,138
Less accumulated depreciation:				
Land improvements	(13,827)	(-)	-	(13,827)
Buildings	(4,769,869)	(473,663)	-	(5,243,532)
Fixed equipment	(428,461)	(49,212)	-	(477,673)
Major movable equipment	(1,164,585)	(93,312)	-	(1,257,897)
Subtotal	(6,376,742)	(616,187)	-	(6,992,929)
Net Capital Assets Being Depreciated	6,071,615	(506,406)	-	6,181,396
CAPITAL ASSETS, NET	\$ 6,196,116	\$ 153,493	\$ -	\$ 6,349,609

NOTE G – WORKERS' COMPENSATION SELF-INSURANCE:

The Facility participates in Houghton County's self-insured worker's compensation plan. The County is self-insured to a maximum limit of \$300,000 - \$350,000 for each occurrence. After the specific limit is reached, a statutory coverage is in place.

As a result of this insurance contract, the Facility has internally designated cash and a portion of fund balance in the amounts of \$387,500 and \$387,500 for 2008 and 2007, respectively, for the payment of future worker's compensation claims. The self-insurance plan is being administered by Citizens Management.

NOTE H – QUALITY ASSURANCE ASSESSMENT PROGRAM:

The Michigan Department of Community Health, in order to provide continuing access to long-term care services for Medicaid recipients, modified its reimbursement system to participate in a share pool to qualified long-term care providers. Under such plan the system maximizes the federal Medicaid matching revenues through the quality assurance assessment program. The Facility

NOTE H – QUALITY ASSURANCE ASSESSMENT PROGRAM (Continued):

participates in this program to the extent of its share of Medicaid utilization in relation to the total for Class III Facilities that are governmentally owned.

NOTE I – APPROPRIATIONS FROM COUNTY OF HOUGHTON/MAINTENANCE OF EFFORT:

The State of Michigan, under Public Act 35, established its method of reimbursing county-owned medical care facilities for Medicaid patient days. Under the provisions of the Act, the County of Houghton is required to reimburse the State for a portion of each day of care provided to Medicaid patients at the Facility. No appropriations from the County of Houghton were required to reimburse the State of Michigan in either 2008 or 2007. Property taxes levied by the facility are used to reimburse the State, and were sufficient in both 2008 and 2007.

NOTE J – DEPOSITS AND INVESTMENTS:Deposits

At September 30, 2008, cash was classified as follows in the Facility's statement of net assets:

Cash and cash equivalents	\$ 4,046,457
Internally Designated Cash:	
Replacement of capital assets	4,804,632
Workers compensation contingency	387,500
Resident trust – cash	4,391
TOTAL	<u>\$ 9,242,980</u>

At September 30, 2008, cash consisted of the following:

Cash in banks	\$ 4,391
Imprest cash on hand	750
Cash held with County Treasurer	9,200,339
Cash held by fiscal agents	37,500
TOTAL	<u>\$ 9,242,980</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State law does not require and the Facility does not have a deposit policy for custodial credit risk. The carrying amounts of the Facility's deposits with financial institutions was \$4,391 and the bank balance was \$3,421. The bank balance is categorized as follows:

Amount insured by the FDIC	\$3,421
Amount uncollateralized and uninsured	-
	<u>\$3,421</u>

The cash held with the County Treasurer of the Facility is combined with the cash of the County of Houghton, Michigan and needs to be considered in conjunction with the overall County cash position in regards to Governmental Accounting Standards Board Statement #40 required note disclosures. This information can be found in the September 30, 2008 combined annual financial statements for the County of Houghton, Michigan.

NOTE J – DEPOSITS AND INVESTMENTS (Continued):

Investments

As of September 30, 2008 the Facility had no investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Facility's investments. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the Facility to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

Michigan statute (Act 314, PA 1965, as amended) authorizes the pension trust to invest in, with certain restrictions, stocks and mutual funds up to 60% of the system's assets; investments in the general or separate account of life insurance companies; fixed income securities; investments in leased property; direct investments in property; investments in real estate loans; investments in small business or venture capital firms in Michigan; surplus funds pooled accounts; and bank or trust company collective investment funds.

The Facility has no investment policy that would further limit its investment choices. The Facility's investments in Mutual Bond Funds are rated from A1 to AAA by Moody's. Ratings are not required for the Facility's investment in U.S. Government Agencies or equity-type funds. The Facility's investments are in accordance with statutory authority.

Concentration of Credit Risk

The Facility places no limit on the amount the Facility may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE K – DEFERRED COMPENSATION PLAN:

The Facility offers its employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan, available to substantially all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the plan's assets are considered to be property of the plan's participants and are no longer subject to the Facility's general creditors. The plan's participants have the right to designate how the funds will be invested. Accordingly, the Facility has no liability for losses under the plan. The plan's assets are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

OTHER FINANCIAL INFORMATION

Houghton County Medical Care Facility
Details of Operating Revenues
For the years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
PATIENT SERVICE REVENUES:		
Medicare	\$ 641,659	\$ 1,046,128
Medicaid	12,033,338	11,627,030
Hospice	167,468	190,900
Private insurance and self pay	1,959,436	1,533,612
Other counties	<u>8,416</u>	<u>51,264</u>
Gross Patient Service Revenues	14,810,317	14,448,934
Less Contractual Adjustments	<u>(716,368)</u>	<u>(1,048,402)</u>
NET PATIENT SERVICE REVENUES	<u><u>\$ 14,093,949</u></u>	<u><u>\$ 13,400,532</u></u>
OTHER OPERATING REVENUES		
Canteen and pop sales	\$ 12,007	\$ 10,945
Other sales	<u>39</u>	<u>398</u>
OTHER OPERATING REVENUES	<u><u>\$ 12,046</u></u>	<u><u>\$ 11,343</u></u>

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2008 and 2007

	2008	2007
General and Administrative		
Salaries and wages	\$ 390,135	\$ 383,175
Payroll taxes and fringes benefits	3,882,452	3,392,126
Supplies	65,016	45,722
Contractual and consultants	136,414	93,351
Telephone	12,533	14,034
Travel	21,648	16,141
Insurance and bonds	120,304	131,301
Repairs and maintenance	487	1,806
Equipment rental	1,866	996
Other expense	8,959	11,903
Employee training and improvement	-	-
TOTAL	<u>\$ 4,639,814</u>	<u>\$ 4,090,555</u>
Maintenance		
Salaries and wages	\$ 399,941	\$ 384,299
Supplies	85,674	97,866
Repairs and maintenance	28,160	12,031
Contractual and consultants	48,114	50,683
Utilities	587,474	542,481
TOTAL	<u>\$ 1,149,363</u>	<u>\$ 1,087,360</u>
Laundry		
Salaries and wages	\$ 294,099	\$ 277,858
Supplies	17,054	29,096
Repairs and maintenance	90	1,761
TOTAL	<u>\$ 311,243</u>	<u>\$ 308,715</u>
Housekeeping		
Salaries and wages	\$ 430,538	\$ 403,339
Supplies	90,574	78,136
Repairs and maintenance	-	-
TOTAL	<u>\$ 521,112</u>	<u>\$ 481,475</u>
Dietary		
Salaries and wages	\$ 781,762	\$ 754,347
Supplies	594,597	515,402
Repairs and maintenance	4,355	2,374
TOTAL	<u>\$ 1,380,714</u>	<u>\$ 1,272,123</u>
Pharmacy		
Supplies	\$ 74,423	\$ 109,165
Contractual and consultants	7,500	7,500
TOTAL	<u>\$ 81,923</u>	<u>\$ 116,665</u>

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2008 and 2007

	2008	2007
Nursing		
Salaries and wages	\$ 5,153,694	\$ 4,933,818
Supplies	506,025	457,419
Contractual and consultants	21,623	34,994
Repairs and maintenance	288	-
Travel	4,967	6,574
TOTAL	<u>\$ 5,686,597</u>	<u>\$ 5,432,805</u>
Social Services		
Salaries and wages	\$ 125,284	\$ 121,910
Contractual and consultants	37,425	11,947
TOTAL	<u>\$ 162,709</u>	<u>\$ 133,857</u>
Physical Therapy		
Salaries and wages	\$ 146,248	\$ 134,869
Supplies	5,243	2,598
Contractual and consultants	257,901	261,955
Repairs and maintenance	607	1,290
TOTAL	<u>\$ 409,999</u>	<u>\$ 400,712</u>
Occupational Therapy		
Salaries and wages	\$ 279,462	\$ 257,599
Supplies	11,648	12,866
TOTAL	<u>\$ 291,110</u>	<u>\$ 270,465</u>
Vehicles		
Supplies	\$ 14,351	\$ 9,269
Repairs and maintenance	6,238	1,822
TOTAL	<u>\$ 20,589</u>	<u>\$ 11,091</u>
Professional Services		
Contractual and consultants	\$ 28,692	\$ 30,083
TOTAL	<u>\$ 28,692</u>	<u>\$ 30,083</u>
Other Expense		
Canteen	\$ 11,053	\$ 8,399
TOTAL	<u>\$ 11,053</u>	<u>\$ 8,399</u>
Depreciation		
Depreciation expense	\$ 616,187	\$ 628,541
TOTAL	<u>\$ 616,187</u>	<u>\$ 628,541</u>
Provision for Bad Debt		
Bad debt expense	\$ 36,507	\$ 9,699
TOTAL	<u>\$ 36,507</u>	<u>\$ 9,699</u>

COMPLIANCE SUPPLEMENTS



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Department of Human Services Board
Houghton County Medical Care Facility
1100 W. Quincy Street
Hancock, Michigan 49930

We have audited the financial statements of the business-type activities of Houghton County Medical Care Facility, an enterprise fund of the County of Houghton, Michigan, as of and for the years ended September 30, 2008 and 2007, which collectively comprise the Houghton County Medical Care Facility's basic financial statements and have issued our report thereon dated February 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Houghton County Medical Care Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Houghton County Medical Care Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Houghton County Medical Care Facility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Houghton County Medical Care Facility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Houghton County Medical Care Facility's financial statements that is more than inconsequential will not be prevented or detected by the Houghton County Medical Care Facility's internal control. We consider the deficiencies described in the accompany Report to Management Letter to be significant deficiencies in internal control over financial reporting (item 08-01).

Department of Human Services Board
Houghton County Medical Care Facility

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Houghton County Medical Care Facility's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houghton County Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Houghton County Medical Care Facility's response to the findings identified in our audit is described in the accompanying Report to Management Letter. We did not audit the Houghton County Medical Care Facility's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Department of Human Services Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman, & Company, P.L.C.
Certified Public Accountants

February 14, 2009



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Houghton County Medical Care Facility
Report to Management Letter
For the Year Ended September 30, 2008

Department of Human Services Board
Houghton County Medical Care Facility
1100 W. Quincy Street
Hancock, Michigan 49930

In planning and performing our audit of the financial statements of the business-type activities of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton, Michigan, as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Houghton County Medical Care Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Houghton County Medical Care Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Houghton County Medical Care Facility's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

08-01 Journal Entry Review

Condition/Criteria: Many journal entries are individually created and recorded by various staff in the Accounting Department. We observed some journal entries made during the year which lacked the review/approval function.

Department of Human Services Board
Houghton County Medical Care Facility

Effect: Lack of Approval. Due to the fact no other person reviews and/or authorizes the respective journal entries, individuals within the Accounting Department may inadvertently process an incorrect journal entry.

Cause of Condition: Lack of internal control.

Recommendation: Proper segregation of duties requires the separation of the recording and authorization processes. The Houghton County Medical Care Facility should develop a procedure for the review and approval of all journal entries that are prepared by individuals within the Accounting Department to ensure the necessity and accuracy of the journal entries.

Management Response – Corrective Action Plan:

Contact person(s) responsible for correction:

- Gerry Jarvey, Business Manager

Corrective action planned:

- Management concurs. A procedure for the review and approval of all journal entries will be developed and implemented.

Anticipated completion date:

- September 30, 2009

* * * * *

Houghton County Medical Care Facility's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Department of Human Services Board, others within the organization, and other legislative or regulatory body, and is not intended to be and should not be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

February 14, 2009